Report on Wilton Park Conference 853

AFRICA: BUSINESS, GROWTH AND POVERTY REDUCTION

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Summary

1. In many parts of Africa there has been considerable economic progress over recent years. Whether one refers to new industries such pineapple cultivation in Ghana for export or the emergence of African entrepreneurs like Mo Ibrahim, the owner of Celtel, or the development of one-stop border posts, there is a sense that Africa is on the move.

2. Growth in GDP in a number of African countries is now over 5% per annum, the highest rate of growth since the 1970s and is expected to be 6% in 2007. This rate of growth is not fast enough, however. The Africa Commission[1] report assessed that Africa would need steady growth of 7% per annum to achieve the Millennium Development Goals (MDGs).

3. Currently 5% of Africa's income is derived from development assistance. The G8 counties have committed themselves to doubling aid to Africa reaching $50 billion per annum by 2010. This level of support should not be taken for granted or become a disincentive to stimulate independent economic activity. Rather, aid should be a stimulus to support economic growth. Debt cancellation, agreed at the Gleneagles G8 summit in 2005, has made additional resources available for domestic investment in education, infrastructure and health. Debt relief should be seen as a 'one-off' and not an excuse for incurring new debts, for example to China.

[1] www.commissionforafrica.org/english/report

4. It is clear that slower productivity growth distinguishes Africa from other regions. The same level of investment generates only one third to one half of the growth of Asia. Statistics indicate that factory floor costs for production compare well with India and China, but the situation 'outside the factory gates' needs attention both in a domestic sense (roads and ports) and the international sense of access to markets (the need to complete the Doha round). Continent-by-continent, Africa ranks third in terms of action on the cost of doing business, and efforts are being made to rectify this situation. [2]

5. Policy and governance are important aspects for achieving economic productivity. Job creation and education remain priorities. Where growth has occurred, the importance of export-led growth and the value of reducing barriers to trade are also significant.

6. Stimulating trade within and beyond Africa is therefore regarded as critical for economic growth. In the past 25 years Africa's share of world trade has fallen from 6% to under 2%. The value of this lost trade is more than three times the annual overall aid to Africa. The Europe or single market demonstrates show that free trade creates wealth, jobs and economic growth. Failure to make progress in liberalising global trade through the Doha Development Round therefore remains very disappointing for Africa.

7. The potential gains from free trade, debt cancellation and development aid make a potent package for revitalising Africa's economy. Government-led initiatives are, however, only part of the story. Significant gains can only be achieved by private sector initiative. Unless the investment climate is right, however, African economics will neither be able to attract inward investment not mobilise domestic resources.

8. African institutions and the international financial institutions and major donors are again emphasising infrastructure as a key need, following an extended period where aid donors have been reluctant to finance infrastructure. The readiness of China to support major infrastructure projects is an additional factor that provides a new dynamism and complication to the equation. China's thirst for resources, readiness to invest and 'soft-pedalling' of any governance criteria requires careful analysis. It provides new

[2] Source: Doing Business database figures for 2005-2006 on countries that made at least one positive reform

opportunities for African countries and is welcomed by many as a counter-balance to western initiatives. Its long-term consequences and potential for indebtedness and dependency is less well recognised.

9. Many African countries have had democratic elections in recent years. The number of armed conflicts in Africa, both between countries and civil wars, has also decreased dramatically. At present there are no wars between states, although the situation between Eritrea and Ethiopia remains tense. Similarly, there are serious problems between Sudan and Chad spilling-over from the Darfur crisis. However, both in terms of conflict and governance there is still ample cause for concern. It is undeniable that the image of 'Africa' as a whole is tarnished by these adverse examples. This contagious element of 'reputational damage' makes it harder to attract investors to the continent. One only needs to name Zimbabwe, Sudan, The Horn of Africa, Chad and Guinea to see serious shortcomings in governance. Shortcomings in the conduct of elections also tarnish Africa's imagine: The Democratic Republic of Congo (DRC), where elections, although flawed, were concluded more smoothly than many anticipated after a war in which four million people were killed; Uganda with the continuing insurgency in the North of the country; and Nigeria where the recent elections, whilst marking the first civilian-to-civilian transition, were marred by shortcomings.

10. There is a new perception that regionalism is a key to Africa's economic progress. Regional approaches to infrastructure, trade, migration, environmental concern and conflict prevention and reduction show the challenges of regionalism – for better or worse. Many of the national boundaries exist primarily on maps. The physical realities are much more important to the people of a region. Areas of instability such as The Horn of Africa, the Mano River countries of West Africa and the Great Lakes Region show how conflicts and instability can spread by contagion across an entire region and damage the continent's reputation as well as reverse economic progress. The African Union has made a promising start in terms of its peace and security agenda. Much more needs to be done.

Economic Assessment and Prospects

11. Africa has 10% of the world's population, but 30% of the world's poor. 17 countries with 36% of Africa's population have achieved an average growth rate of 5.5% and can be classified as experiencing sustained growth. However, 21 countries, representing 36% of Africa's population, can be classified as slow growing countries with an average growth rate in the last decade of just 2.1%. Large countries, such as the Democratic Republic of Congo, Nigeria, Ethiopia and Sudan, with 40% of Africa's population in total, have only 4% of total income. Extreme poverty in Africa has increased from 36% of the population in 1970 to approximately 50% in 2000. In contrast, over the same period, the number and proportion of poor people in South East Asia has declined dramatically. For example, in the early 1960s, the income per capita in Ghana was higher than that in South Korea.

12. African countries have very different experiences of growth in recent decades, but there is now the analytical basis to make some comparisons. Large countries have tended to grow more slowly and there has been extreme instability of growth for most countries, in particular the resource-rich. Further study of the data indicates that even countries with similar endowments have achieved very different growth results. For example, Côte d'Ivoire and Mauritius are both coastal and resource-poor countries which have pursued different development paths with very different outcomes. Mauritius has succeeded in escaping from being a low-income mono-culture as a result of its investment in human capital. Cote d'Ivoire remains a low-income country. Zambia and Botswana are both land-locked and resource-rich, but Botswana, through its investment policies, planning and focus on human capital, has achieved a good result. In addition to factors already adduced, there is also the disease burden and the youth unemployment 'time bomb'. In many African countries, as a result of the high birth rates, there are 'more mouths to feed than hands to cook'.

13. Other particularities of African economies should also be noted. Between 33% and 40% of Africans live in land locked countries and 90% of sub-Saharan Africa is exposed to tropical diseases.

14. The eight countries endowed with oil represent 29% of Africa's population and have an average growth rate of 7.4%. Windfalls for government whether from oil or other natural resources, however, seem to result in a 'resource curse' as a result of poor governance. Oil revenues have been captured as a tax resource for governments, rather than these resources being used for the general population and to facilitate sustained economic growth.

15. To connect ordinary people, particularly the poor, to the sectors of economic growth remains a challenge. There are acute health issues and skills deficits for many African people seeking to compete in the global market place. The growth sectors within African economies can also easily lead to increased inequality. For many poor farmers, the question of land tenure remains essential, as does the associated issue of property rights. Even then, rural populations face additional challenges to make their land assets more productive, such as lack of access to education, health, capital and adequate rural infrastructure. The rural poor, particularly women, face challenges in seeking to get access to the growing economy and labour market and to ensure that they acquire their share of the economic benefits accruing from growth.

16. Research conducted within the World Bank suggests that four differentiated approaches to growth can be determined for different categories of African countries. The first model is that of manufactured export-led growth, in effect, the Asian model which is particularly appropriate for coastal countries. The second approach would be national resource-based equitable growth, the Botswana model of resource-rich exporting countries. The third approach would be natural resource-based agricultural export, with diversification and industrialisation. This is similar to the Chilean agribusiness model and the Malaysian model of agro-industrialised export. The final model, represents the best chance for land locked countries; namely a high value service sector similar to elements of the Indian model.

17. Four decisive areas of action, the 'four I's', are recommended for improving the investment climate; infrastructure; embarking on a big push in investment; innovation to increasing productivity, and institutional capacity.

18. To improve the investment climate, a menu of actions is necessary. These include the reduction of the indirect cost to firms, an approach which can be divided into software issues related to the policy environment and hardware issues relating to infrastructure. The reduction and mitigation of risk is important. This includes security of property and crime reduction and also fostering political stability, contract enforcement and reduction of corruption. Both foreign and local investors need to be targeted. Local investors need to be encouraged to reverse capital flight and, in the other direction, remittances are important. Development of cohesive investment areas, with achievement of a good reputation for a region, policy coordination and connectivity are important. The reduction of indirect costs for African producers is important, as is reduction of energy costs and increased reliability (decrease in number of power cuts).

19. In terms of infrastructure, a big push is necessary to make a difference. As a result of many years of under-investment and lack of maintenance, Africa is lacking behind in terms of its infrastructure. This has national and international dimensions. At national level countries neglected their infrastructure. At international level, aid donors have been reluctant in recent years to fund large infrastructure projects. The African Development Bank (AfDB) is acutely aware of the needs for infrastructure in such areas as energy, water, sanitation and transport. The rural farmer needs good infrastructure to transport his/her produce to the market. Clean water and sanitation are essential to reduce infant mortality and check the spread of water-borne diseases. Information and communications technology (ICT) are essential. The needs in the social sector are paralleled by requirements for roads, railways, ports, telephone, science and technology in order for domestic economies to mesh with the global economy through export business. The Commission for Africa estimated that about $20billion per year was needed to bridge the investment gap in infrastructure. As economies grow, even in modern economies such as South Africa and Egypt, the demand for energy easily outstrips supply, reflecting previous years of under-investment. Public-private sector partnerships are needed to close this infrastructure gap. Investment in telecommunications is expanding rapidly. For example, Nigeria has gone from under half a million mobile phone subscribers in the 1990s to over 20 million in 2006.

20. Infrastructure is of particular importance for land locked countries which, as has been shown, tend to be poorer. A regional approach is therefore essential to stimulate

cross-border activity. This requires cooperation in terms of infrastructure investment, management and use. Examples are power pooling in Southern Africa and cross-country pipeline projects in West Africa. Furthermore, an enhanced regulatory capacity and efficient use and maintenance of assets is vital. Private-Public Partnerships (PPPs) are one approach which could be more readily applied.

21. Innovation is recognised as the key to productivity, growth and competitiveness. There are some opportunities for leapfrogging for late starters but here the example of mobile phones is perhaps overused. ICT is now the main technological driver for increases in productivity. Investment in ICT improves competitiveness, as does investment in higher education. Clearly, these are interrelated as it tends to be those with a higher educational level who are best able to take advantage of newer technologies. The Global Competitiveness Index shows that investment in higher education boosts competitiveness. While Africa has been catching up in terms of primary education, it has fallen further behind in tertiary education – particularly if compared with East Asia. It is now being recognised that, for economies to progress, the dimensions of science and technology are important. One of the lessons of the development of Asian economies is that an investment in higher education is essential to run a modern economy.

22. It is increasingly being recognised, also, that specialist institutions such as the Kigali Institute for Science and Technology (KIST) in Rwanda are needed for training the skilled manpower required. The development of national capabilities in science and technology is also required for a major step forward education and economic progress.

23. In terms of institutional capacity for business, certain areas are key. These include the enforcement of contracts through commercial courts; the exercise of voice for scrutiny of public policy and action, through civil society, the media and parliament; enhancing revenue transparency in resource-rich countries, for example through the Extractive Industries Transparency Initiative (EITI), and prevention of corruption through strong internal organisations (and not only international NGOs). The tax structure and fiscal/revenue management of African countries also needs considerable attention.

24. The challenges which Africa faces to develop economically are thus daunting but not insurmountable. Africans will have to take charge of their own destiny and Diaspora Africans can play a part. Remittances to Ghana, for example, are estimated at $2 billion per annum, twice as high as Overseas Development Assistance (ODA). However, the use of the Diaspora, not only as a source of cash but as a pool of talent for technical assistance, also merits consideration. Aid agencies have been slow to tap into this talent.

25. As the East Asian experience shows, unorthodox approaches can yield positive results, often dependent primarily on the private sector. At the same time, however, leadership does have a defining role in achieving success. This puts a huge weight on how leaders are chosen and how they are held to account.

National Experiences

26. Whilst each country situation is unique and requires a specific analysis of its constraints and opportunities energising private investment in the short to medium term and fostering efficiency in competitiveness are pre-conditions for export-led growth. Even landlocked countries have some opportunities in terms of high value/low weight products such as the flower industry in Rwanda and Uganda. In addition, some of the tea and coffee producers can concentrate on niche markets for produce grown in an identifiable area, of particularly high quality and this is especially the case if they can attract a premium for the product being certifiably organic.

27. The case of **Botswana** indicates that careful use of national resources, with a commitment to devoting the proceeds of such national resources to education and manpower training is important. Botswana has sought to ensure that their diamonds are a national asset through successive national development plans and have now developed Vision 2016, which looks at the aspirations of the country such as a prosperous, productive and innovative nation with a well educated and informed population. The real GDP growth rate has averaged 9.8% between 1966 and 2004 through the discovery of minerals and prudent use of resources. Management of the economy is carefully judged and excessive expenditure avoided. This is particularly the case with the budget sustainability ratio, which is carefully adhered to.

28. **Liberia** has emerged from its long civil war and years of mismanagement had left a huge external debt. Liberia's total debt estimated at c $4 billion was seven times GDP and almost 3000 times the level of annual exports. Basic infrastructure had been severely destroyed. In order to restore financial stability and confidence, the government instituted the Governance and Economic Management Assistance Programme (GEMAP) which over the last year and a half has been monitored by International Monetary Fund (IMF) staff. 75,000 ex-combatants have been demobilised and reintegrated and the new armed forces and police force of Liberia have been trained and equipped. Sound public financial management has been introduced, steps have been taken to address governance and the rule of law, including founding a Truth and Reconciliation Commission and health, roads, education and other key basic services are being addressed. Job creation and the strengthening of the government institutions are among other outstanding challenges. Liberia is still acutely conscious of the need for the continuing support of the international community.

29. The **Great Lakes region** faces huge challenges as a landlocked and post-transition region. Different options exist. One is the choice between development along an external versus internal route. If exports through the coast can be achieved, export-led growth might be a possibility. There could be a possibility of integration for the Great Lakes region into the global economy through an ICT driven model, with more multinationals and preferential trade with countries such as Kenya, Dubai, South Africa and Asia. On the other hand, a subsistence-based economy might be more realistic. The region also faces choices as to whether to develop stronger states to deal with the mineral assets or to move more in the direction of regional integration. Ethnic divides and other tensions could lead to politics of exclusiveness if a regional identity cannot be developed.

30. The situation in the **DRC** and **Nigeria** can be regarded as encapsulating the hopes and dangers for the entire continent. Both countries have recently had promising, but flawed, elections. The international community is minded to respond to these as 'good enough' elections, rather than press the point to the extent that 'the best becomes the enemy of the good'. The government of Joseph Kabila is a considerable improvement on its predecessors. The DRC needs peace and stability and the support of the

international community. It also needs continued investment in its mineral wealth and improved structures of governance, supported by careful attention from those monitoring how the wealth is used. In Nigeria, the achievement of transition from one democratic government to another should not be underestimated, in spite of reports of widespread electoral irregularities. For either of these huge countries and potentially huge economies, to descend again into violence would be a huge setback for the entire African continent.

The Implications of Growth in China and India

31. The impact of China and India on the global economy and hence on Africa is a newer dimension which is beginning to be recognised and addressed across the African continent.

32. Developing country economies in Africa seeking to compete with China and India will continue to face considerable difficulties. China currently accounts for 7% of global merchandise exports and 6.1% of imports, whereas India accounts for less than 1% of global exports and imports. China's manufacturing industry is 41% of GDP while Africa's is only 16%. China is likely to remain a formidable exporter of labour-intensive goods such as textiles, garments, shoes and toys. The manufacturing industry in India is less well- developed and less export oriented than China's. Countries such as Lesotho, Swaziland and South Africa lost a considerable number of the clothing and textile sector from 2004-2005 (over ten thousand jobs in each case). There has been a 15% and 43% (Swaziland) increase in unemployment in these sectors in South Africa and Swaziland respectively.

33. The more China participates in manufacturing in a particular sector, the more likely prices are to fall and the more difficult it will be for African countries to compete in that sector. China's demand for commodities, however, gives African resource-rich countries greater opportunities. Prices, particularly hard commodities such as oil, have increased substantially. African economies such as coffee and tea producers could look for niche markets, for example, in producing organic or high grade products. There could be other niche markets, for example, in the service industry or eco-tourism, where

African economies can add value. The indirect impact of China and India is probably even greater than the direct impact.

34. It is unclear which sectors China and India will concentrate on in coming years. African developing countries seeking to complete with China and India in certain sectors will have to be flexible. This strategy could be different for different economies. Low income countries could look for the possibility of placing China and India in ‘vacated markets’. For the resource owners, the strategy will be to redistribute and look for niche manufacturing. Middle income countries could interalia add more value to economic activity through more foreign direct investment, local innovation, increasing skills and improving design.

35. There is a clear readiness across Africa to engage with China as the unprecedented attendance of almost all Heads of State at a meeting in Beijing in 2007 indicated. The stakes are high on both sides. From the African side, there could be a temptation to take support from China as a way of evading pressure from the Western world on human rights and governance. From China’s side, the ‘blind eye’ turned to shortcomings in governance could well prove not to have helped Africa’s development in the long run. The immediate gains of support from China are clear.

Regional Solutions and African Institutions

36. The development of regional economies, with a good reputation for being a sound location for business, with agglomeration economies and good infrastructure serving as a regional public good, represents a way forward. Cross-cutting issues such as climate change, worker mobility and the flow of small arms need to be tackled collectively. If regionalism is a key to Africa’s economic progress it needs strong regional institutions to support this development. International donors recognise the progress being made by pan-African and regional institutions but capacity is restricting their abilities and needs greater support.

37. The founding of the African Union (AU) marks a new phase of maturity of African institutions. The AU is designed to address the 21st challenges for Africa with a pragmatic and practical approach, taking over from the Organisation for African Unity

(OAU) whose vision proved difficult to realise. It is to be expected that there are different visions and expectations for what the AU can realistically achieve. Leaders such as Presidents Wade, Obasanjo and Mbeki were instrumental in merging their visions for the continent in the New Partnerships for Africa's Development (NEPAD). There has inevitably been a division of labour and a process of negotiation between the AU and NEPAD. In some areas the cooperation has proved to be good, for example, science and technology. NEPAD has agreed to focus on infrastructure through the Infrastructure Consortium.

38. The AfDB is the premier development institution and only 'AAA' rated financial institution in Africa. Together with its sister institutions it has mobilised over $50 billion though competitive private capital as well as concessional public capital to promote growth and development on the continent.

39. The AfDB has more than doubled its support to business enterprises through economic policy reforms and direct operation in the private sector to US $400 million in 2006. The AfDBs own research suggests that the four largest economies in Africa (South Africa, Algeria, Nigeria and Egypt), or the SANE group, compares favourably with the BRIC (Brazil, Russia, India, China) economies. The average number of days required to register a company and begin a business in SANE economics (10.5) is comparable to that of East Asia (8.2) and Europe (9.3). The cost of enforcing a contract (16.8% of debts) in SANE countries is much lower than the 52.7% registered for East Asia. Two African countries (Ghana and Tanzania) are ranked among the top ten global performers in the World Bank's 2007 Business Report. Many other African countries have improved their performance recently.

40. There remains a potential, and increasing need, for cooperation around the major rivers and water supplies of the African continent. The Nile River Basin initiative is one such project. The AfDB has a number of important water projects in its portfolio of c. $600 million.

41. The African states have also made progress in encouraging investment but more needs to be done in order to attract inward investment into their economies. In this context, the AfDB has introduced a post-conflict facility which has helped clear debt

arrears in the DRC, Congo, Burundi and Central African Republic. In natural resource-rich countries, Extractive Industries Transparency Initiative is being supported.

42. There are other indications that regional policy is developing. The work of the African Peer Review Mechanism (APRM) has begun in a businesslike way, but critics still point to the crisis in Zimbabwe as being a test case. There are obvious sensibilities about the imposition of good governance and justifiable concerns about 'punishing' people for living in countries with the wrong kind of government by cutting off aid. Often aid donors seem to care more for ordinary Africans than the worst African governments who neglect or punish their own citizens. At the same time, however, donors are reluctant to use governance as a new form of conditionality and exert strong pressure for reform. These are areas of complexity and controversy.

43. The UN Economic Commission for Africa (UNECA) has also done a great deal of work on governance. More than twenty-five countries put themselves forward to be reviewed and this marks an important institutional development for the African continent. The Investment Climate Facility (ICF), under former President Mkapa and Niall Fitzgerald, is potentially important for the private sector but has not yet made decisive interventions to assist investment.

44. In the South African Development Community (SADC) there is a potential market of 250 million people, which provides opportunities for regional competitiveness. There are relatively easily identifiable improvements which can be achieved, for example streamlining documentation at border points, improvement in particular facilities, for example the ports in Durban. NEPAD and the Organisation for Economic Cooperation and Development (OECD) supported programme of the Infrastructure Consortium is working on merging its lists of projects to provide a joint strategy.

45. Francophone, Africa's common link to the Eurozone, provides some lessons for integration in the Economic Community of West African States (ECOWAS) grouping, since policy coordination and currency policy can foster greater regional integration.

46. The financial system on the African continent remains under-developed. Savings and investment rates have been low, sometimes a third less than the equivalent in East

Asian countries. Financial sector reforms have been undertaken, for example the Banking Sector Consolidation Programme in Nigeria has attracted more than US$3 billion in foreign direct investment (FDI). FDI in Africa currently amounts to US$30 billion compared with US$17 billion a decade ago. This remains relatively unevenly distributed but nonetheless is expanding. Countries attracting the highest credit ratings include Botswana, South Africa, Tunisia, Morocco, Lesotho, Nigeria and Ghana.

47. The SANE countries account for half of Africa's GDP, a third of its population and a fifth of its landmass. The SANE group has three distinct comparative advantages which could allow them to become regional growth poles – natural resources, geography and market size. All of SANE countries have coasts, and they are geographically well spread, thus enhancing their trade growth potential.

International Business Perspectives

48. International business recognises that it cannot succeed in failing states. In Africa, 3.7 billion people have no access to financial services and 1.2 billion have no access to safe drinking water. Business seeks to find partners across sectors and to localise value creation. Innovation is needed at all stages of the production chain. The World Business Council for Sustainable Development is looking at approaches which can make a real difference. For example, Vodafone is helping with mobile phones; access to micro finance is being improved, and a partner from Honduras is helping build houses for $9,500 per unit.

49. Business Action for Africa, an informal network with approximately 150 members, half of which are British based, was formed as a response to the Africa Commission Initiative. This is working on a number of initiatives such as business action against corruption, approaches in support of Investment Climate Facility, and is supportive of the Africa Enterprise Challenge Fund. EITI has emphasised greater transparency in the oil and gas sector.

50. Increasingly, major businesses such as Anglo-American are stressing that, with around 100,000 employees in Africa, they are deeply committed to the development agenda and their business is a major contributor to economic development in terms of

the value added, in terms of the wages paid and in terms of the taxes contributed to the economies. Any serious commitment to wealth creation has to involve a role for the private sector. For the extractive industries, some particular challenges present themselves – for example, the tendency of central governments to retreat from well-resourced areas.

51. The Shell Foundation, with an emphasis on private sector solutions, similarly stresses that the role of business is development and that businesses have to seek to unblock restrictions which will improve the climate for business. This will lead to further businesses being developed, with more and better goods and services and taxes being paid to government for investment in infrastructure. Unlike the NGO sector, businesses should not fight shy of assisting in the creation of 'for profit' businesses and pro-poor small firms. This is why the Shell Foundation is particularly active in the small, medium enterprise (SME) sector.

52. Unilever, as well as working on its core business, has engaged in campaigns, for example, advertising the importance of hand washing on its soap as a public education campaign together with UNICEF.

53. Increasingly, business recognises that growth must happen in a responsible way with an element of redistribution. Business also has a responsibility for minimising any negative impact of its own involvement. Major companies are also well placed to stress the importance of inter-regional trade and assist in ensuring that customs work as well as possible.

54. Business efforts to curb corruption are not helped by, for example, the lack of progress in key economies such as Nigeria where huge sums of money have been moved out of the country and lodged in western bank accounts, very little of which has been recovered and returned. Fuller support should be given to the OECD convention against bribing government officials.

55. Development of effective trade unions and solidarity in Africa has never been easy, and is beset by multiple challenges. More recently, the pressures of globalisation have added to the old dilemmas of a small formal manufacturing sector and the tendency of

governments to regard trade unions as opposition. In a situation where there is strong pressure on workers to accept excessively demanding and low paid conditions, establishing internationally acceptable standards such as the International Labour Organisation's (Decent Work) agenda is difficult. In addition, there is a split between Anglophone and Francophone unions on the continent. Health and Safety standards are lacking in most African countries. In a number of countries, anti-union discrimination is strong. Export Processing Zones (EPZs) face particular difficulties. From within the union movement there is also criticism of the Chinese as being 'friends of government, not friends of the workers' for paying lower wages.

International Donor Support for Economic Development

56. Donors recognise that while economic growth is encouraging there is still a long way to go to meet targets on critical MDGs such as the percentage of people living on less than a dollar a day. Many challenging questions remain for donors. How can the continent as a whole approach growth rates of 10% rather than 5%? How can effective conflict prevention mechanisms be consolidated? How can governance be applied to ensure that African states are capable, accountable and responsive? How can external actors provide a supportive but not over-intrusive role in this regard, e.g. through support of civil society, etc? in the context of MDGs, how can the additional burden of climate change be addressed as well as the demands for effective social provision, poverty eradication, health and sanitation? How can the 'missing link' of gender be adequately addressed in these challenges? How can pan-African initiatives be best coordinated to make a coherent whole?

57. The UK's Department For International Development (DFID) tracks progress on all MDGs and on many of the indicators, sub-Saharan African countries are either off-track or severely off-track. Primary school enrolment is one encouraging sign with 21 million more primary school children in school in the last five years, with countries such as Kenya, Tanzania, Uganda and Malawi showing the way by increasing school enrolment through the simple expedient of abolition of school fees as a result of assistance through ODA.

58. Two years on from the Gleneagles Summit, the UK and some, but not all, other G8 countries have promised and some delivered on increasing aid for Africa. In individual countries, even one donor can make a significant contribution to breaking the cycle of poverty. For example, UK development assistance provides, on average, £44 per household to seven million people in Ethiopia. The long-term perspective needs to be an Africa 'free of aid'. In some countries, debt repayments represent 50% of aid revenues. The UK Government insists, however, that new debts should not be incurred which would wipe out gains achieved through debt relief.

59. The European Consensus for Development has committed the EU member states to achieving a 0.56% of GNI level of ODA by 2010 and 0.7 by 2015. Half of the increase is to go to Africa. €22 billion has been pledged in grants for the Africa, Caribbean and Pacific (ACP) in the period 2008-2013 through the European Development Fund (EDF). 19 of the top 20 EDF countries are in Africa.

International Financing Strategies for Post-Conflict and Fragile Countries

60. As well as the direct impact of conflict, African countries emerging from conflict or those defined as Low Income Countries Under Stress (LICUS) have serious economic challenges. These geographically diverse countries share problems in common: the restoration of peace and security; the need for political transition; the need for capacity building; the urgent requirements of resuming economic and social development; humanitarian challenges and unmet basic needs; expectations from the local population and many conflicting demands for urgent priorities. They also face debt accumulation and arrears in payments, inadequacies in public finance management, lower flows and more volatility in aid than other developing countries. These countries often rank lowest on the Country Policies and Institutional Assessment (CPIA) Index.

61. Unless a particular country takes responsibility for a post-conflict nation, for example the UK for Sierra Leone or France for the Central African Republic, they can often be bereft of new financing. However, growing donor interest in these countries was expressed in January 2005 at the London Senior Level Forum on Development Effectiveness in Fragile States.

62. The design of donor’s financial tools has not, in the past, fitted well with the needs of post-conflict countries and the LICUS states. Arrears to international financial institutions have traditionally blocked the possibility of receiving any further ODA and damaged the reputation of the country. From the high level meeting in 2005, donors have made serious efforts on this issue. The IMF has designed a programme called Emergency Post Conflict Assistance (EPCA) which can make funds available quicker than traditional IMF loans. The essential condition is that countries have to clear their arrears with the IMF. African countries which are not able to do this have to go through a successful Staff-Monitored Programme (SMP). This condition has applied to Liberia, Sudan and Somalia. The ECPA however, has limited flexibility some argue and does not provide the longer term support needed for countries requiring longer term financing.

63. The World Bank has developed two funding sources, the Post Conflict Fund and the LICUS fund. In 2004 the AfDB set up a post conflict facility for the clearance of arrears of countries in those conflict situations which Burundi and Congo Brazzaville have benefited from. The UN Peacebuilding Commission has also been set up with the specific mandate of assisting transition from conflict to post-conflict peacebuilding, by mobilising and coordination efforts by the international community for the period necessary. The OECD Development Assistance Committee (DAC) has created a working group on post-conflict issues. France, in particular, has paid serious attention to these issues and is now able to give budget support to post-conflict countries as soon as they receive IMF assistance reimbursements. Burundi was the first country to benefit from this provision. France also assisted the DRC with an exceptional arrears arrangement. The procedures for the Agence Française de Developpement (AFD) and the EU also have a stability instrument, but it is early days and difficult to judge the effectiveness of these provisions.

64. The European Community’s Stability Instrument, scheduled to become active in 2007, is intended to provide an instrument for the management of political crisis. The immediate need is for the Commission to raise resources to fund countries in a post-conflict situation, addressing such issues as Disarmament, Demobilisation and Reintegration (DDR), security sector reform, judicial processes, payment of multilateral arrears and, if necessary, salaries and wages. LICUS countries also need strengthened

policy advice and technical assistance to build the capacity to implement macro-economic policy and restore fundamental services.

65. The Multilateral Debt Relief Initiative (MDRI) following the 2005 Gleneagles G8 meeting was intended to be a one-off and comprehensive settlement of the debt issue for heavily indebted poor countries. There are still legitimate concerns about moral hazard and the temptation to run up new debts once the previous debts have been cleared. One proposal being addressed is the suggestion of suspending debt repayment for a specific period of for example up to three years.

66. What is clear is that coordination is needed between all international donors, and early action necessary to benefit post-conflict countries. Pooling of risks, for example, through multilateral trusts, can help bi-lateral donors overcome hesitation. NEPAD has outlined principles for an African post-conflict management fund managed by the AfDB and also regional and sub-regional funds. Such buy-in from neighbouring countries could well add to stability in a region seeking to emerge from a destructive spiral of violence.

67. The most detrimental problem for post-conflict countries is a relapse into renewed fighting. With countries such as Liberia, Somalia and Sudan critically in the frame for such assistance and at various stages in the conflict/post-conflict continuum, this issue will remain one of great importance on the African continent. Successful instruments will require coordination, and generation of finance as well as policy support.

Conclusions

68. It is increasingly recognised that growth and redistribution, stimulation of domestic and inward investment, increased trade and employment creation are the key ways to economic growth and to achieve the MDGs in Africa. There are encouraging signs economically, there is greater attention to curbing corruption than has been the case hitherto, and progress in terms of governance and in reducing the number of major armed conflicts on the continent. The institutions and continental mechanisms such as

NEPAD, the African Union and the African Development Bank are also showing signs of progress.

69. Many challenges remain, however and progress is patchy. More needs to be done in terms of governance and on the African Peer Review Mechanism. The conflict in Darfur, the continued governance problems in Zimbabwe, the difficulties with the elections in Nigeria all indicate serious room for improvement. However, many of the African economies are growing.

70. The potentially optimistic conclusions of authors such as Prahalad[3] indicating that development for those at the bottom of the pyramid is quite possible, must be tempered by the warnings of Paul Collier[4] that the political and governance issues are central for healthy economic development.

71. The private sector has a key role to play, not least at a time when multilateral trade talks are making so little progress. Of course, the contribution of aid and debt relief is also substantial. Tthe future of Africa's prosperity relies in dynamic and equitable sharing of the fruits of economic progress.

Wilton Park
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[3] Coimbatore Krishnarao Prahalad, the Paul and Ruth McCracken Distinguished University Professor of Corporate Strategy at the University of Michigan Ross School of Business
'The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits': Wharton School Publishing, 2004

[4] The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It: Paul Collier, Oxford University Press 2007